National Film Board of Canada

2015–2016

Quarterly Financial Report for the quarter ended December 31, 2015

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1. Introduction

The National Film Board (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that raise awareness of Canadian values and viewpoints and of the issues of interest to Canadians, across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile, and that would not be produced otherwise. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read together with the *Main Estimates*.

This quarterly report has not been subject to an external audit or review.

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying *Statement of Authorities* includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the *Main Estimates* and *Supplementary Estimates* for the 2015–2016 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

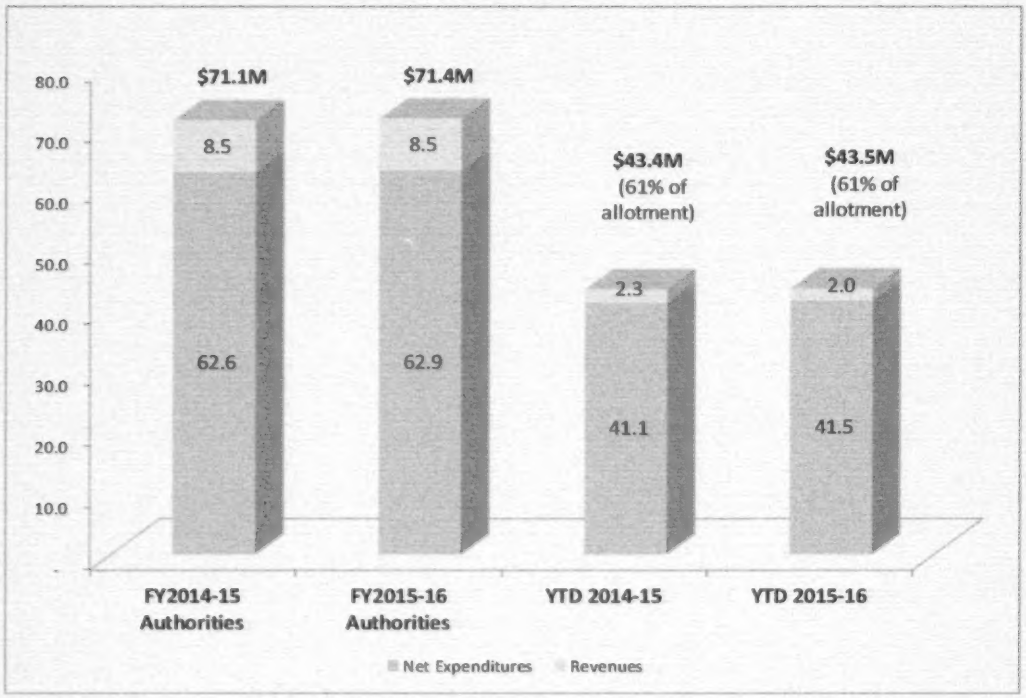
The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the *Appropriation Act* or through legislation in the form of statutory spending authority for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances between projected and actual expenditures and expected and earned revenues for the period ended December 31, 2015.



The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2015–2016, with projected gross expenditures totalling $71.4 million. This is $0.3 million more than in the preceding fiscal year. Total projected expenditures include a $3.3 million carry-over in 2015–2016. In 2014–2015, available authorities included a $2.7 million carry-over and $0.4 million for the financing of costs related to the relocation of NFB headquarters slated for 2018.

Table 2 shows expenditures and revenues for the third quarter of 2015–2016. Here is an overview of the main items to be noted:

Variance in Revenues

Third quarter actual revenues are $0.9 million, which is comparable to the preceding year.

Variance in Expenditures

Gross expenditures for the third quarter of 2015–2016 increased by $0.6 million compared to the same quarter last year and stand at $15.4 million. This increase is mostly attributed to salaries, professional and special services, rentals, repair and maintenance, and acquisition of machinery and equipment expenditures.

The reduction in salary expenditures is due to the organizational restructuring announced in March 2015.

The increase of $0.6 million in professional and special services is mainly explained by the fact that production activities are higher this quarter compared to the same quarter of the preceding year.

The decline in rental expenditures is mainly due to space reduction in conjunction with a new occupancy agreement at the Montreal head office.

The increase in repair and maintenance is due to the fit-up cost and relocation of the Moncton and Edmonton offices.

The increase in the acquisition of machinery and equipment expenditures is justified by the purchase of materials and equipment for different projects.

The other types of expenses by standard object followed historical trends.

4. Risks and Uncertainties

The key risks that the NFB faces are: a decline in its revenues, a discrepancy between corporate capacity and workload, and technological obsolescence.

The audiovisual industry and the NFB have encountered declining revenues due to the migration from traditional to online distribution platforms. The NFB is working actively to develop new modes of financing and to take advantage of new distribution platforms to ensure its financial independence and secure the resources that it needs to fully accomplish its mandate. Furthermore, the NFB seeks to develop partnerships in order to increase its production capacity.

As a public agency, the NFB has demonstrated a strong, sustained commitment to the education sector, and it continues to develop and enhance content for education professionals and its base of CAMPUS subscribers in Canada. Efforts have also been undertaken to increase its presence in the U.S. education market.

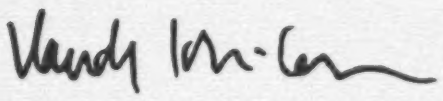
With respect to the risk related to the discrepancy between corporate capacity and workload, an action plan will soon be developed.

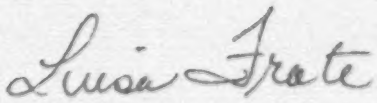
Finally, the NFB is also monitoring new technologies, and a strategic plan is being developed to reduce the risk of technological obsolescence in the audiovisual sector. The plan will also include a strategy to modernize our operating systems.

5. Significant Changes Related to Operations, Personnel and Programs

In order to overcome financial pressures resulting from the lack of funding for anticipated salary revisions and from the relocation of several of its offices, the NFB put forth a four-year strategic financial plan. In March 2015, the NFB announced a restructuring of its activities in order to ensure its financial stability. Educational workshops offered in Montreal and Toronto were discontinued at the end of the first quarter. Moreover, several positions, including five Director positions, have been abolished and the organizational structure was simplified.

Approved by:





Claude Joli-Coeur

Government Film Commissioner
and Chairperson of the National Film Board

Montreal, Canada

February 25, 2016

Luisa Frate, CPA, CA

Director General,
Finance, Operations and Technology
(Chief Financial Officer)

Montreal, Canada

February 25, 2016

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Table 1 : Statement of Authorities ***(unaudited)***

	Fiscal Year 2015-2016			Fiscal Year 2014-2015		
(dollars)	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended December 31, 2015	Year-to-date used at the quarter-end	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended December 31, 2014	Year-to-date used at the quarter-end **
Vote 70 - Operating expenditures	62,955,237	14,454,744	41,526,810	62,603,652	13,888,602	41,108,581
Total Budgetary authorities	62,955,237	14,454,744	41,526,810	62,603,652	13,888,602	41,108,581
Total authorities	**62,955,237**	**14,454,744**	**41,526,810**	62,603,652	**13,888,602**	**41,108,581**

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Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2015-2016			Fiscal Year 2014-2015		
(dollars)	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended December 31, 2015	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2015	Used during the quarter ended December 31, 2014	Year-to-date used at quarter-end *
Expenditures:						
Personnel	38 561 600	9 191 785	27 586 393	37 987 994	9 429 919	28 092 443
Transportation and communications	3 274 494	798 924	1 972 808	3 284 196	881 570	1 784 467
Information	496 207	207 348	356 645	560 117	202 086	321 130
Professional and special services	13 929 169	2 668 752	5 761 910	13 970 439	2 111 093	5 566 127
Rentals	8 274 790	1 478 079	4 686 419	8 289 308	1 625 322	5 054 115
Repair and maintenance	1 377 719	280 704	1 221 797	1 381 601	53 190	1 086 796
Utilities, materials and supplies	1 151 752	155 286	542 367	1 155 165	160 488	477 661
Acquisition of machinery and equipment	3 479 241	421 028	866 451	3 489 549	188 825	584 989
Transfer payments	-	0	-	83 161	1 375	40 790
Other subsidies and payments	860 713	139 557	379 459	854 367	103 775	392 464
Total gross budgetary expenditures	71 407 683	15 351 442	43 866 256	71 096 099	14 757 939	43 406 983
Less Revenues netted against expenditures:						
Revenues credited to the vote	8 452 446	896 698	1 979 446	8 452 446	969 048	2 282 371
Total Revenues netted against expenditures	8 452 446	896 698	1 979 446	8 452 446	969 048	2 282 371
Total net budgetary expenditures	62 955 237	14 454 744	41 526 810	62 643 653	13 788 892	41 108 981